



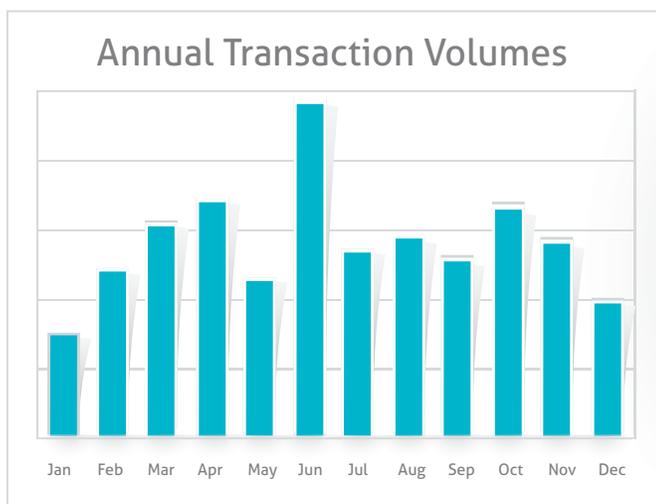
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The Crime of Wasted Capacity

In many industries, there is an incredible amount of latent capacity that is wasted in the back- and middle-office on a daily basis. This fact is routinely overlooked by the majority of C-suite executives, who are unable to see the extent of unused capacity so deeply hidden within their organizations.

Thankfully, there are several simple steps executives can take to ensure that the latent and costly capacity is finally exposed, surfaced, and leveraged.

In a past life, I was the COO of a large insurance group. Every year in June, we ran a promotion for our sales agents whereby, if they hit certain sales targets, they were rewarded with an all-expense-paid vacation to destinations such as Switzerland or London with their families. Unsurprisingly, the impact on our transaction volumes during the months of the promotion was significant.

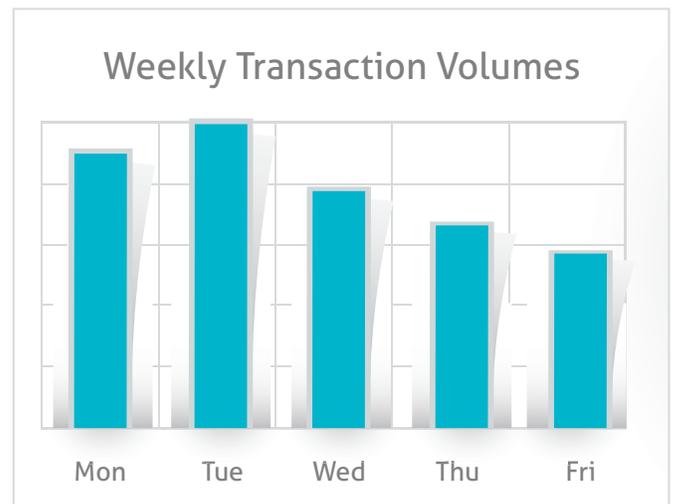


Monthly volumes dip and spike in response to promotional programs

In May, the month before the promotion, our volumes dropped drastically as agents held back on submitting their sales until June. By contrast, June would be a colossal month in which we received volumes that were up to 150% greater than the next highest month of the year. The

graph below illustrates the volume fluctuations typically witnessed by our business, a pattern that is common in many industries:

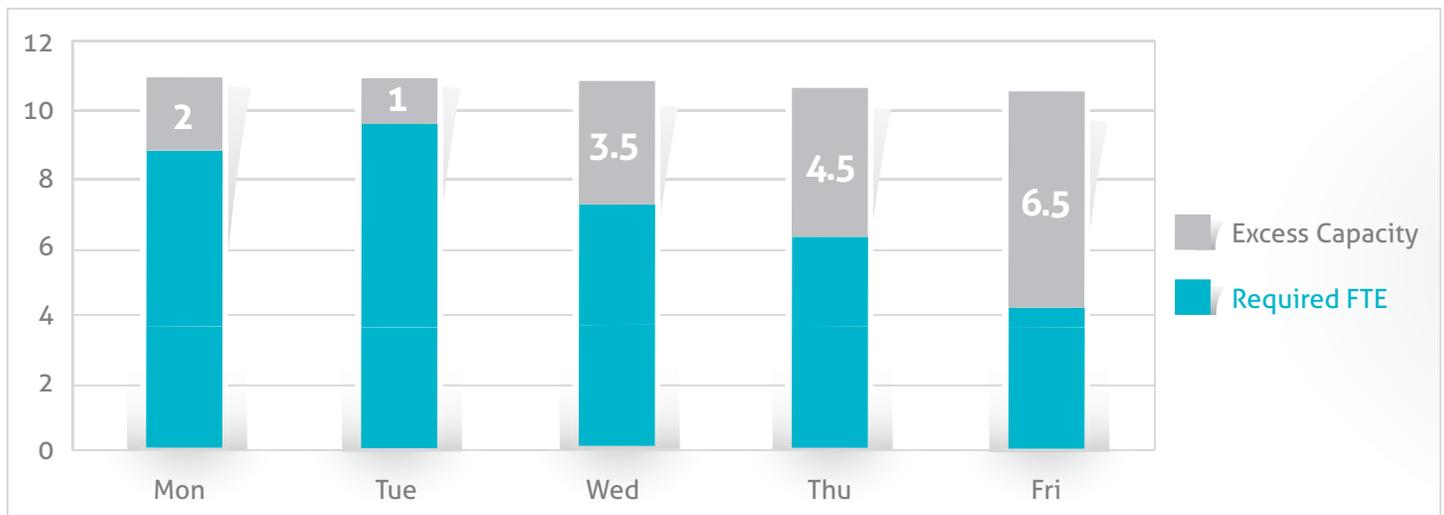
To cope with the spike in transaction volumes in June, we ensured that vacation days were kept at a minimum that month, plus we also incurred some additional overtime. Nonetheless, the high volumes successfully processed in June raised a crucial question that our management team could not ignore: *If our business is capable of processing almost double the average monthly volume for the year with the same number of FTE, what does this tell us about our operations during the remaining months of the year?*



Daily volumes typically spike early in the week

Fluctuations in weekly transaction volumes provided further insight into the extent of untapped capacity within our business. As in many other organizations, insurance customers tend to take action on their personal business over weekends. As a consequence, all of that work would accumulate and hit our business early in the following week, particularly on Mondays and Tuesdays. Once again we would be confronted with the same question: *If our business is capable of processing significantly higher volumes at the beginning of the week, what does this tell us about what is happening on the other days of the week?*

Excess Capacity / Required FTE



Typical weekly capacity utilization within a team

Big Implications

The implication of these simple questions on the business is colossal. For example, let us assume that the above weekly volume fluctuations occur in a team comprised of 11 members. The staffing level for this team was originally designed to cope with peak times, i.e. Tuesday's volumes, and to add a buffer for sick leave and vacation time. As such, the staffing level is already set at 115% above even peak times. The actual FTE number required during peak times is 10 FTE, and anything beneath the 11 FTE staffing level represents excess capacity. As shown in the graph above, there is limited excess capacity on Mondays and Tuesdays. However, from Wednesday onwards there is significant excess capacity that is being wasted, culminating on Friday where a staggering 6.5 FTE would have been available for other purposes.

So what exactly is happening to this excess capacity that is being wasted? What is all the unused time on quieter days being used for? The assumption is that teams are seizing the opportunity to engage in other essential tasks,

such as cross-training, up-skilling or project work. However, from hundreds of implementations we have seen, this is absolutely not the case. What actually transpires in teams is pacing, which occurs when the workload a person is given does not keep them busy enough for the entire day. Consequently, they slow down their output in order to make the workload stretch the entire day. Pacing is the biggest cause of wasted capacity in teams and the main reason teams are still able to process the same amount of work on busier days. Latent capacity accounts for approximately 10-30% of costs within a typical business, even in teams that do not have high volume fluctuations.

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What can executives do?

Executives can derive a great deal of insight by analyzing both annual and weekly volume fluctuations. If you are an executive, CFO, or COO, I encourage you to try this simple exercise: lay out the average year and average week in your operations and start to question if there is capacity within your business. If the answer is “yes,” you need to think about what you are going to do about it. The “crime of wasted capacity” lies not in having excess capacity during quieter days of the week, or during quieter months of the year, but in not recognizing and utilizing this excess capacity appropriately. This capacity could be put to good use by loaning staff to busier teams, conducting cross-training, implementing process improvements, doing value-added call-backs to agents, or even engaging in project work.

A New Model to Manage Capacity

In the long-term, analyzing weekly and monthly volume fluctuations is of course insufficient. The key to good capacity management is embracing a holistic capacity management model, including:

- **Value added assessments** that benchmark desired processing times devoid of any non-value added and waste activity. Value added assessments are the fundamental building blocks for identifying and understanding capacity and showing the true processing capability of each team.

- **A robust forecasting system** that provides managers with reasonably accurate volume projections. While forecasting doesn't replace management decision making, it is an input into management decision making and planning
- **A modelling tool** that allows managers to recognize where the capacity resides within their teams
- **Behavioral change** that includes a weekly planning process, whereby managers proactively prepare for the upcoming week as per the projected daily transaction volumes. An important component of the behavioral change also involves including the team in the planning process and collectively determining the best way to use the excess capacity in the week ahead.

Embracing these key elements of an optimal capacity management model will pay big dividends for your business. While you need to have enough capacity to handle those normal business spikes, there is a lot you can do in less busy times to avoid the “crime of wasted capacity.”

For more information on how to uncover excess capacity within your business and engage in long-term capacity management, contact your nearest Enlighten office.

